

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

APPLICATION FOR WAIVER
UNDER 39 C.F.R. § 3030.286

Docket No. RM2022-12

**UNITED STATES POSTAL SERVICE APPLICATION
FOR A WAIVER UNDER 39 CFR § 3030.286**
(August 8, 2022)

Pursuant to 39 C.F.R. § 3030.286, the United States Postal Service requests that in the event the upcoming Market Dominant price change that the Postal Service is considering recommending to our Governors is approved by them, that the Postal Regulatory Commission waive the applicability of 39 C.F.R. § 3030.283 to the workshare discount for Marketing Mail Carrier Route Flats dropshipped at the Destination Delivery Unit (DDU). If approved by the Governors, the Postal Service would not expect to file any such price change case any earlier than October 7, 2022. The supporting statement, evidence, and attestation required by 39 C.F.R. § 3030.286(b)-(c) are set out below.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**Statement of Sharon D. Owens,
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BACKGROUND

In 2017, the Postal Service proposed to improve the methodology it used to calculate workshare discount passthrough percentages for dropshipped Marketing Mail pieces. Docket No. RM2017-11, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), July 28, 2017.

For Marketing Mail flat-shaped pieces, two groups of rates are available to mailers: a rate per piece for pieces up to a 4-ounce breakpoint weight and a combined rate, per piece and per pound, for pieces heavier than the 4-ounce breakpoint weight. The passthrough percentage calculation in 2017 divided only the discount for pieces heavier than the breakpoint weight by the avoided cost per pound for pieces both above and below the breakpoint weight. Docket No. RM2017-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), Nov. 20, 2017, at 3 (Order No. 4227). As such, this method of calculating passthrough percentages was incomplete. It did not include in its numerator pieces below the pricing breakpoint, but it did include the weight of those pieces in the denominator.

The Postal Service therefore proposed, and the Commission approved, what is now the current methodology, which addresses that limitation by including in the numerator the discount for pieces at or below the breakpoint weight, adding them to

the discount for pounds above the breakpoint weight, and dividing by the avoided cost per pound for weights above and below the breakpoint weight, as in Figure 1:

Figure 1: Current Methodology for Calculating Workshare Discount Passthrough Percentages for Marketing Mail Flat-shaped Pieces

$$\frac{((\text{Pound discount} * \text{Pounds above breakpoint}) + (\text{Piece discount} * \text{Pieces up to the breakpoint}))}{(\text{Avoided cost per pound} * \text{Pounds above and below breakpoint})}$$

Order No. 4227 at 4, 8.

Given this, calculating passthrough percentages for Marketing Mail flats is different than calculating passthrough percentages for most other products. In most other cases, the Postal Service can simply subtract the unit discount from the published benchmark price given on the relevant pricing table, e.g. Notice 123, and divide by the avoided cost.

For the combined per-piece and per-pound prices of Marketing Mail flats, however, this approach does not work because the benchmark price varies with the different weights of the different pieces mailed. Put slightly differently, the Postal Service can only calculate workshare discounts and percentage passthroughs for Marketing Mail Flats on a weighted basis *after* mailing when the weights and numbers of pieces sent are known.

The use of actual volumes and weights means, as a practical matter, that there can be volatility in passthrough percentages for Marketing Mail flats, which can make it more difficult for passthroughs calculated this way to meet the requirements for workshare discounts in 39 C.F.R. §§ 3030.283 and 3030.284.

For example, in Docket No. R2021-2, the Postal Service was faced with a situation in which it was mathematically impossible for all six passthrough percentages for Basic Carrier Route Flats (those on 5-Digit pallets and those on all other pallets) to comply with 39 C.F.R. §§ 3030.283 and 3030.284, at least without introducing prices that were irrational on their face, such as making the DDU price for pieces greater than four ounces on basic pallets higher than both the DNDC and DSCF prices and making the DDU price for pieces heavier than four ounces on 5-Digit pallets higher than the DSCF price. Docket No. R2021-2, United States Postal Service Notice of Market Dominant Price Change (May 28, 2021), at 17-18 and Attachment B, R2021-2.xlsx; Docket No. RM2021-6, Responses of the United States Postal Service to Chairman's Information Request No. 1 (May 5, 2021), at Q4, and companion file RM2021-6.ChIR1Q4Resp.xlsx.

Accordingly, in Docket No. R2021-2, the Postal Service set Carrier Route rates so as to achieve the fullest possible compliance while still retaining rationality. It set only one rate category out of compliance at 134.3 percent (Basic Carrier Route Flats dropshipped at the DDU), Docket No. R2021-2, Attachment B at Tab "Flats and Parcels Dropship," and because that passthrough was set above 100 percent, its benefit accrued to mailers rather than to the Postal Service.

At the same time, because the Postal Service was aware of this problem when preparing Docket No. R2021-2, it filed a petition with the Commission to address the non-compliance by modifying slightly how it calculated and reported passthroughs for Marketing Mail flats. Docket No. RM2021-6, A Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three) (April 8,

2021). Specifically, the Postal Service proposed to calculate and report passthroughs for Marketing Mail Carrier Route Flats on 5-digit pallets and passthroughs for all other Marketing Mail Carrier Route Flats together instead of separately. *Id.* at 2.

The Commission approved the price adjustments in Docket No. R2021-2. Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, (July 19, 2021) at 2 (Order No. 5937). In so doing, the Commission granted “a one-time exemption from the rules of 39 C.F.R. part 3030, subpart J for the Basic Carrier Route flats entered at the DDU workshare discount,” noting both the demonstration of the mathematical impossibility of complete compliance and the Postal Service’s proposal to change the methodology to remedy the non-compliance. Order No. 5937 at 100.

The Commission subsequently approved Proposal Three, finding that the proposed methodology “significantly improves the quality, accuracy, and completeness of the Postal Service’s workshare discounts” and agreed that the prior methodology and separation of 5-Digit pallets from all other Carrier Route flats “leads to anomalous results and could precipitate inefficient pricing.” Docket No. RM2021-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), November 4, 2021, at 11 (Order No. 6032).

NON-COMPLIANCE AND ANALYSIS

The Postal Service is faced with a similar situation now. In the previous four quarters, there was a great disparity in the volumes and weights of Marketing Mail

Carrier Route Flats entered at the different dropship levels. The approximately 2.9 billion Carrier Route Flats pieces weighing less than four ounces and entered at the SCF outnumbered the same-sized pieces entered at the DDU by a factor of 79 (Figure 2):

Figure 2: FY 2021 Q4 – FY 22 Q3 Volumes for Dropshipped Market Mail Carrier Route Flats < 4 oz. (in thousands)

Dropship Level	Volume
None	80,192.8
DNDC	264,851.9
DSCF	2,898,255.2
DDU	36,691.9
TOTAL	3,279.991.8

And the average weight of the Flats dropshipped at the SCF was 1.625 times heavier than the average weight of Flats dropshipped at the DDU, 2.6 ounces versus 1.6 ounces (Figure 3):

Figure 3: FY 2021 Q4 -FY 22 Q3 Average Per-Piece Weight (in oz.), Dropshipped Market Mail Carrier Route Flats < 4 oz.

Dropship Level	Avg. Per-Piece Weight
None	1.9
DNDC	2.8
DSCF	2.6
DDU	1.6
All	2.6

The Postal Service is considering recommending to our Governors a Marketing Dominant price case. If approved by the Governors any such price case would not likely be filed any earlier than October 7, 2022, and the effect of this great disparity in volumes and weights will be that it is mathematically impossible for both the DSCF

and DDU passthrough percentages to be compliant with the requirements of 39 C.F.R. §§ 3030.283 and 3030.284, at least without resorting to irrational pricing.

To illustrate the problem, the Postal Service has provided a worksheet that allows the user to see the effects of changing prices and average weights on passthrough percentages for Marketing Mail Carrier Route Flats at different dropship levels. RM2022-12 Waiver.xlsx

The worksheet shows, for example, that given the starting passthrough percentages for the DNDC (66.5 percent), DSCF (77.9 percent), and DDU (96.5 percent) dropship levels, RM2022-12 Waiver.xlsx; Tab: R2023-1 Passthrough; Cells L12 - L14, setting the DSCF passthrough percentage to 85 percent to comply with 39 C.F.R. § 3030.284 pushes the DDU passthrough percentage to 105 percent and out of compliance with 39 C.F.R. § 3030.283. RM2022-12 Waiver.xlsx; Tab: R2023-1 Passthrough; Cell J14. If the DDU passthrough is pushed down to 100 percent, the DDU dropship price will be higher than the DSCF dropship price.

Similarly, setting the DDU passthrough to 99.6 percent to comply with 39 C.F.R. § 3030.283 pushes the DSCF passthrough percentage to 83.4 percent and out of compliance with 39 C.F.R. § 3030.284. RM2022-12 Waiver.xlsx; Tab: R2023-1 Passthrough; Cell J13. If the DSCF passthrough percentage is raised to 85 percent, the DDU dropship price will be higher than the DSCF dropship price.

That this is the direct result of the mail mix can be seen by adjusting the average weight of the pieces dropshipped at the DDU. RM2022-12 Waiver.xlsx; Tab: R2023-1 Passthrough; Cells C28. Were the average weight of the 36.7 million Carrier Route Flats dropshipped at the DDU 1.8 ounces instead of 1.6 ounces, the

anomaly does not arise. The DSCF and DDU dropship prices could be set with the former appropriately higher than the latter (and less than the DNDC dropship price), and the corresponding passthrough percentages would be compliant. Users can make appropriate changes in the workbook to see the resulting prices and passthroughs.

JUSTIFICATION FOR WAIVER

There are a number of reasons to grant the waiver requested. First, in any upcoming price case if approved by the Governors, the Postal Service would intend to seek approval of prices that will minimize non-compliance and its consequences. The Postal Service would intend in any such price case to seek approval for prices for Market Mail Carrier Route Flats such that only the passthrough percentage for pieces dropshipped at the DDU is out of compliance, approximately 105.0 percent. Because the volume of Carrier Route Flats dropshipped at the DDU is so relatively small compared to other dropship volumes, one and two orders of magnitude smaller than the DNDC and DSCF dropship volumes, the cost of this non-compliance is only approximately \$200,000, see RM2022-12 Waiver.xlsx; Tab: R2023-1 Passthrough; Table in cells K25 to M28, and that amount will inure to the benefit of mailers in any event.

Second, as noted above and illustrated on the accompanying worksheet, requiring compliance for passthrough percentages at all dropship levels for Marketing Mail Carrier Route Flats will result in pricing that is prima facie irrational. This would not be the result of any failure of effort, planning, or implementation by the Postal Service but rather of happenstance — the comparatively low average

weight of Carrier Route Flats dropshipped at the DDU in the last four quarters, which exacerbated the volatility inherent in the agreed-upon methodology for calculating the applicable passthrough percentage.

Third and finally, the Postal Service believes that this (and similar) waivers for Marketing Mail flats will not be necessary in Market Dominant price cases beyond the potential upcoming price case. As the Postal Service has become aware of this iteration of the problem, it has been investigating solutions. The Postal Service is investigating structural changes in pricing of flat- and parcel-shaped pieces leading to a simplified methodology in the calculation of passthroughs which will not require the pieces and pounds data to calculate dropship passthroughs.

Given all of the foregoing, the Postal Service respectfully requests that the Commission grant the waiver sought in the event a Market Dominant price adjustment case is approved and pursued.

I attest to the accuracy of the factual information presented in this request.

Date: August 8, 2022

/S/

Sharon D. Owens,
Vice President, Pricing and Costing
United States Postal Service